

PERFORMANCE AUDIT REPORT  
of the  
Administrative Committee on Veterans' Affairs  
and  
Department of Veterans' Affairs

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March 22, 2004

Report No. 3021

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March 22, 2004

Honorable John Hoeven, Governor

Members of the North Dakota Legislative Assembly

Transmitted herewith is the performance audit report on aspects of the Administrative Committee on Veterans' Affairs and the North Dakota Department of Veterans' Affairs. This report contains the results of our study of the Administrative Committee and the Department. This audit contained a review of the effectiveness of management and the organizational structure of the Department. The efficiency and effectiveness of the Administrative Committee's and the Department's use of financial resources was also reviewed.

The audit was conducted pursuant to Chapter 7 of the 2003 Session Laws. We conducted this audit under the authority of North Dakota Century Code Chapter 54-10. Included in the report are the goals and scope, findings and recommendations, conclusions, and the responses from the Administrative Committee on Veterans' Affairs and the Department of Veterans' Affairs.

Sincerely,

Robert R. Peterson  
State Auditor

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## Executive Summary

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### Purpose and Authority of the Audit

The performance audit of the Administrative Committee on Veterans' Affairs and the North Dakota Department of Veterans' Affairs was conducted by the Office of the State Auditor pursuant to Chapter 7 of the 2003 Session Laws. Section 3 of this chapter required a performance audit be conducted during the 2003-2005 biennium with the results of the performance audit to be presented to the Legislative Audit and Fiscal Review Committee by July 1, 2004, and filed with the Appropriations Committees during the 59<sup>th</sup> Legislative Assembly. The purpose of this report is to provide our analysis, findings, and recommendations regarding our limited review of the Committee and the Department.

### Background Information

The Administrative Committee on Veterans' Affairs is responsible for the organization, policy, and general administration of veterans' affairs. The Committee is comprised of 15 members, 3 each representing the 5 major veterans' organizations in the state. The Department of Veterans' Affairs is under the control and supervision of the Commissioner of the Department who is appointed by the Committee.

### Results and Findings

We reviewed management controls, applicable state laws, and the organizational structure related to the Administrative Committee on Veterans' Affairs and the Department of Veterans' Affairs. We also reviewed the management controls and policies and procedures related to the use of resources. All recommendations are listed in Appendix A. Discussions relating to individual recommendations are included in Chapters 2 and 3 of this report.

### *Management and Organizational Structure*

Through tests and reviews performed, we noted improvements could be made to increase the effectiveness of the management of the Department of Veterans' Affairs. We are requesting the Office of Attorney General review the Commissioner's actions and determine whether there was noncompliance with North Dakota Century Code related to obstructing or misleading our office or hindering our examination. The Office of Attorney General could also determine whether Department employees performed non-state duties using state resources on state time.

The Administrative Committee on Veterans' Affairs, the Committee responsible for the supervision and governance of the Department, should ensure it fulfills its legislatively mandated requirements related to the Department by ensuring an annual performance evaluation of the Commissioner is conducted, improving the supervision/monitoring of the Department, and ensuring state laws are complied with. The Committee should also develop a policy manual addressing policies for both the Committee and the Department. In addition, the Committee should take appropriate action to reduce the Committee's size and modify the appointment process.

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## Executive Summary

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A conservatorship program should be established within the Department, and a review of the position responsible for processing federal claims should be conducted to determine whether this position should continue with this function or be assigned other responsibilities. The Department should also ensure employees are properly supervised and monitored.

The Department should fulfill the responsibilities and duties it has related to County Veterans' Service Officers to ensure compliance with North Dakota Century Code requirements and Department policies or take appropriate action to modify these requirements. To increase services to veterans at the county level, the Department should be proactive and work with counties to consolidate the number of County Veterans' Service Officers.

The Administrative Committee on Veterans' Affairs and the Department should establish strategic plans. The Department should be more proactive in informing veterans and the public about programs and services available to veterans and their dependents.

### *Financial Resources*

Through tests and reviews performed, improvements can be made to increase the efficiency and effectiveness of resources available to the Administrative Committee on Veterans' Affairs and the Department of Veterans' Affairs. The Department should make changes to their budget and ensure proper appropriation authority is obtained.

The Department should improve the Veterans' Aid Loan Program to ensure proper policies and procedures exist and that policies and procedures are complied with. Improvements should be made relating to the accounting of the loan program and the amount of program correspondence. The Department should make changes to when one-half of the loan interest is waived, as well as how one-half of the interest is waived. Improvements should also be made regarding loan accounts turned over for collection and how loans are monitored. The Department should conduct a review to ensure the amount of administration expenses charged to the Veterans' Aid Fund is reasonable.

The Department should make changes to the Emergency Hardship Assistance Grant Program by no longer requiring grant applications be submitted to the Bismarck branch office, ensuring proper policies and procedures exist, and ensuring policies and procedures are complied with. Changes should be made to how the Department identifies and reports the obligated and outstanding grant balance.

## Introduction

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### Purpose and Authority of the Audit

The performance audit of the Administrative Committee on Veterans' Affairs and the North Dakota Department of Veterans' Affairs was conducted by the Office of the State Auditor pursuant to Chapter 7 of the 2003 Session Laws. As stated in Session Law, the performance audit was to be conducted during the biennium beginning July 1, 2003 and ending June 30, 2005. This Session Law required the results of the performance audit be presented to the Legislative Audit and Fiscal Review Committee by July 1, 2004, and filed with the Appropriations Committees during the 59<sup>th</sup> Legislative Assembly.

A performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action. The purpose of this report is to provide our analysis, findings, and recommendations regarding our limited review of the Administrative Committee on Veterans' Affairs and the Department of Veterans' Affairs.

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### Background Information

As identified in North Dakota Century Code (NDCC) Chapter 37-18.1, the Administrative Committee on Veterans' Affairs is responsible for the organization, policy, and general administration of veterans' affairs. The Committee is comprised of 15 voting members, 3 each representing the following 5 major veteran organizations:

- American Legion;
- Disabled American Veterans;
- Veterans of Foreign Wars;
- AMVETS (Veterans of World War II, Korea, and Vietnam); and
- Vietnam Veterans of America.

Every year, each of the above five veteran organizations is to submit to the Governor the names of two individuals who qualify as a veteran for appointment or reappointment. The Adjutant General, the Center Director of the Veterans' Administration, and the Executive Director of Job Service North Dakota are three ex-officio nonvoting members who are to serve in an advisory capacity to the Committee.

The Chairman and Secretary of the Administrative Committee on Veterans' Affairs (appointed annually by the Governor) appoint the Department of Veterans' Affairs Subcommittee from among the voting members of the Committee as well as appointing the Veterans' Home Governing Board from members of the Committee or outside the Committee. The Department of Veterans' Affairs Subcommittee is responsible for the supervision and government of the Department.

NDCC Chapter 37-18 establishes a Department of Veterans' Affairs under the supervision and control of the Commissioner of the

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## Chapter 1 Introduction

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Department of Veterans' Affairs, who is appointed by the Administrative Committee on Veterans' Affairs. As outlined in NDCC Section 37-18-04, it is the duty of the Commissioner to:

- Coordinate agencies or instrumentalities of the state set up to render service and benefits to returning veterans;
- Implement programs and benefits authorized by statute;
- Assist or represent veterans or their widows, administrators, executors, guardians, or heirs in processing claims;
- Advise and assist veterans in taking advantage of the provisions of the Servicemen's Readjustment Act of 1944, or any similar or related measures afforded by the federal government;
- Assist, supervise, advise, and direct the work of county service officers;
- Assist county service officers in the formation of county service to veterans' committees and to outline, assist, and direct the activities of such committees; and
- Disseminate information and carry out the intent and purposes of NDCC Chapter 37-18 ("Department of Veterans' Affairs").

The Department operates the following two financial assistance programs (additional information on the programs is included in Appendix B):

- Veterans' Aid Loan Program: This program was created in 1943 and is designed to give temporary emergency financial assistance to qualified veterans or their unmarried widows/widowers. Qualifying applicants can receive a loan up to \$5,000 to be paid back at 8% interest in 48 months or less. If timely repayment is made on the loan and the loan is paid off on or before the due date, one-half of the interest paid is to be waived. The Veterans' Aid Loan Program is funded through the Veterans' Aid Fund.
- Emergency Hardship Assistance Grant Program: This program was created in 1993 and gives aid to qualified veterans and their spouses or unmarried widows/widowers in need of dental work, eye glasses, hearing aids, transportation for medical treatment, or other medical needs approved by the Commissioner. The Emergency Hardship Assistance Grant Program is funded through the Veterans' Postwar Trust Fund.

For the 2001-2003 biennium, the Department's budget was approximately \$512,000. The Department has a main office located in Fargo and a branch office located in Bismarck. Five of the Department's six employees are located in Fargo and one employee is located in Bismarck.

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## Chapter 1 Introduction

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### Goals of the Audit

North Dakota Century Code Section 54-10-01 requires our office to conduct performance audits in accordance with generally accepted government auditing standards. The goals of our audit, listed below, include the necessary elements of a performance audit conducted in accordance with generally accepted government auditing standards.

#### *Goal One*

Is management and the organizational structure of the Department of Veterans' Affairs effective?

#### *Goal Two*

Is the Administrative Committee on Veterans' Affairs and the Department of Veterans' Affairs using financial resources efficiently and effectively?

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### Scope & Methodology

This audit was conducted in accordance with generally accepted government auditing standards and includes appropriate performance auditing and evaluation methods. Audit fieldwork was conducted from December 2003 through March 2004. The audit period for which information was collected and reviewed was July 1, 2001 through December 31, 2003. In certain cases, additional information was reviewed. This was done, in part, to obtain prior information on the Administrative Committee and the Department and to provide updated information regarding current processes. Specific methodologies are identified in the respective chapters of this report.



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## Management and Organizational Structure

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### Introduction

One of the goals of this performance audit was to answer the following question:

“Is management and the organizational structure of the Department of Veterans’ Affairs effective?”

Through tests and reviews performed, we noted improvements could be made to increase the effectiveness of the management of the Department of Veterans’ Affairs (Department). We are requesting the Office of Attorney General review the Commissioner’s actions and determine whether they result in noncompliance with North Dakota Century Code related to obstructing or misleading our office or hindering our examination. In addition, the Office of Attorney General could determine whether Department employees performed non-state duties using state resources on state time.

The Administrative Committee on Veterans’ Affairs, the Committee responsible for the supervision and governance of the Department, needs to ensure it fulfills its legislatively mandated requirements related to the Department by ensuring an annual performance evaluation of the Commissioner is conducted, improving the supervision/monitoring of the Department, and ensuring state laws are complied with. The Committee also needs to develop a policy manual addressing policies for both the Committee and the Department. In addition, the Committee should take appropriate action to reduce the Committee’s size and modify the appointment process.

We concluded that the Department should establish a conservatorship program and review the position responsible for processing federal claims to determine whether this position should continue with this function or be assigned other responsibilities. In addition, the Department should ensure employees are properly supervised and monitored.

The Department needs to fulfill the responsibilities and duties related to County Veterans’ Service Officers by ensuring compliance with North Dakota Century Code requirements and Department policies or by taking appropriate action to modify these requirements. To increase the service to veterans at the county level, the Department should be proactive and work with counties to consolidate the number of County Veterans’ Service Officers.

The Administrative Committee on Veterans’ Affairs and the Department need to establish strategic plans. The Department also needs to be more proactive in informing veterans and the public about programs and services available to veterans and their dependents.

The improvements noted above are discussed in this chapter and improvements of less significance were communicated to management in a separate letter.

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## Chapter 2

### Management and Organizational Structure

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To determine whether the management and organizational structure were effective, we:

- Reviewed laws, policies, and procedures pertaining to the Department;
- Reviewed management controls surrounding laws, policies, and procedures;
- Reviewed the Department's organizational structure;
- Reviewed information from other states; and
- Interviewed selected members of the Administrative Committee on Veterans' Affairs and Department staff.

### Requesting the Office of Attorney General Review Commissioner's Actions

Through discussions with individuals involved with veterans' issues and a review of information, we identified an issue relating to individuals being appointed as a conservator for veterans. Additional information related to conservatorships and the need for conservators is identified in the section entitled "Adding a Conservatorship Program." In 1987, a letter addressed to the Department from an Assistant Attorney General states that if an employee of the Department acts in the capacity of a conservator on a private basis, that employee may not utilize state resources, equipment, personnel, or supplies in performing conservator duties and should take annual leave if it were performed during normal work hours. In discussions with Department staff, two employees were identified as being conservators for veterans, one of which was the Commissioner.

In an initial interview with the Commissioner, we asked questions related to the Commissioner's conservatorship responsibilities and duties. Based on information obtained in other interviews, we noted contradictions with the Commissioner's responses to our questions and other information obtained that led us to conclude that the Commissioner was not providing accurate information. We met with the Office of Attorney General to discuss this area and to discuss North Dakota Century Code Section 54-10-23 which states:

"Every person who, when required to do so, shall refuse or neglect to make any return or exhibit, or to make or give any information required by the auditor, or who willfully shall obstruct or mislead the auditor in the execution of the auditor's duties, or who in any manner shall hinder a thorough examination by the auditor, is guilty of a class C felony."

**The Commissioner's responses were contradicted by other information obtained.**

Based on the guidance provided by the Office of Attorney General, we had another meeting with the Commissioner addressing the same conservatorship questions and gave the Commissioner the opportunity to provide additional information or to modify his original responses. The Commissioner did not provide additional information or modify his original responses. It appears there is a contradiction with information the Commissioner provided us as to when conservatorship duties were

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## Chapter 2

### Management and Organizational Structure

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performed, where the conservatorship files were located, and whether other employees perform conservatorship duties. The information provided by the Commissioner does not appear accurate and his unwillingness to provide accurate information hampered our efforts to conduct a thorough review in this area. Based on discussions with the Office of Attorney General, we determined that no additional work would be performed relating to the Commissioner's possible noncompliance with North Dakota Century Code in the obstruction or misleading of our office and whether conservatorship duties were performed on state time using state resources. In addition, other actions taken by the Commissioner, while of lesser significance, also hindered a thorough examination by our office.

#### Recommendation 2-1

We recommend the Office of Attorney General determine if the Commissioner of the Department of Veterans' Affairs is in noncompliance with North Dakota Century Code Section 54-10-23 by obstructing or misleading the Office of the State Auditor or by hindering a thorough examination. In addition, the Office of Attorney General may want to determine if Department employees performed conservator duties on state time using state resources.

#### Office of Attorney General's Response

Once the audit is final, and a complete copy of the audit is available, this office will review the audit, speak with the auditors involved and make a determination regarding whether there is a need for a formal investigation.

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#### Making Improvements to the Administrative Committee on Veterans' Affairs

The Administrative Committee on Veterans' Affairs is responsible for the organization, policy, and administration of all veterans' affairs in North Dakota. Through a review of information and discussions with selected members of the Committee, we noted the Committee is not in compliance with North Dakota Century Code requirements, lacks sufficient policies and procedures to properly supervise and monitor the Department, should be reduced in size, and membership should be modified.

#### Ensuring Compliance with Century Code

North Dakota Century Code (NDCC) Section 37-18.1-03 identifies the responsibilities and duties of the Administrative Committee on Veterans' Affairs. The responsibilities include ensuring compliance with applicable state and federal laws in the administration of the Department of Veterans' Affairs and appointing a subcommittee to be responsible for supervision of the Department including conducting an annual performance evaluation of the Commissioner.

In a review of meeting minutes, information related to the Department's Emergency Hardship Assistance Grant Program, and personnel records, the following was identified:

- The 2003 Legislative Session changed the definition of a veteran, which was to be effective August 1, 2003. The Committee passed

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## Chapter 2

### Management and Organizational Structure

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Certain actions taken by the Committee and lack of action taken by the Committee have resulted in noncompliance with state law as well as poor supervision and oversight of the Department.

a motion at its April 2003 meeting to implement the revised definition of a veteran for the Emergency Hardship Assistance Grant Program. This program uses Veterans' Postwar Trust Fund interest moneys which, according to NDCC Section 37-14-14, must be used only for programs of benefit and service to veterans or their dependents. The definition of a veteran should have remained the same until August 1 and grants should have been awarded to individuals who met the definition of veteran in state law. The early implementation of the veteran definition resulted in noncompliance with North Dakota Century Code, as grants were awarded to veterans who did not meet the definition of a veteran in state law. These individuals did meet the definition of a veteran after August 1, 2003 and would have been eligible for a grant at that time.

- NDCC Section 37-14-12 identifies that the decision of the Department to deny a request for assistance from programs under the control of the Department can be appealed to an appeals committee appointed by the Chairman of the Committee. Through a review of eight appeals, we noted one in which the appeals committee reversed the Department's decision to deny a grant and this reversal decision was not reasonable. The applicant was denied a grant by the Department due to the applicant not meeting the definition of a veteran. The appeals committee overturned the decision and identified the reason for reversing the decision was because the "Committee thought veteran was deserving of a grant."
- NDCC Section 37-18.1-03 identifies that an annual performance evaluation of the Commissioner is to be conducted by the Administrative Committee's subcommittee established for the supervision and government of the Department of Veterans' Affairs. We identified no evaluations of the Commissioner in his personnel file.
- We identified that the Department's position located in the Bismarck branch office does not have a formal job description. In review of this, we noted the subcommittee for the Department requested a formal job description for this position at a meeting in December 2000. However, there appears to have been no follow-up on this request of the Department, as there is no job description.

The Committee has established very limited controls related to the supervision of the Department and does not conduct sufficient monitoring of the Department. In addition, certain Committee decisions and a lack of action taken have resulted in noncompliance with state law.

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## Chapter 2

### Management and Organizational Structure

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#### Recommendation 2-2

We recommend the Administrative Committee on Veterans' Affairs:

- a) Comply with North Dakota Century Code Section 37-18.1-03 and ensure proper supervision and monitoring of the Department of Veterans' Affairs is provided; and
- b) Ensure the effective dates of changes or additions to North Dakota Century Code are complied with.

#### Management's Response

Agree. This will be incorporated into our strategic planning process for further action.

#### *Developing a Policy Manual*

In a review of the Administrative Committee on Veterans' Affairs, we noted the Committee is passing motions to establish guidance or requirements that the Department of Veterans' Affairs is to follow. However, there is no formal policy or procedure manual and thus, an extensive review of meeting minutes would be required to determine all requirements that the Committee has established for the Department. In addition, the Committee uses motions to establish guidelines for the Committee's actions but does not incorporate such information into a policy or procedure manual.

We identified a number of areas where a formal policy or procedure manual would be beneficial to provide guidance and establish actions to be taken. Examples noted include:

- The Committee is responsible for the supervision of the Department but has not established a policy or procedure manual related to the Committee's supervision and monitoring of the Department. In addition, the Committee has not established formal policies for the Department to follow.
- The Veterans' Postwar Trust Fund is a permanent trust fund and all income from investments is appropriated to the Committee on a continuing basis. The Committee receives requests for uses of the income and votes on whether to approve a request. There is no application form used in this process to identify requested amounts, how the moneys are to be used, or for what purpose the moneys will be used. Also, no signature is obtained from an applicant or information provided to the applicant that the moneys are to be used only for the service or benefit of veterans and are to be used solely for the purposes identified on the request.
- Besides the Veterans' Postwar Trust Fund, the Committee also has authority related to the Veterans' Aid Fund, which is a trust fund established to make loans or advances to veterans and their surviving spouses. There are no formal policies or procedures of the Committee related to how the moneys in the funds are to be used or how the Committee will monitor the use of such moneys.
- The Department administers the Emergency Hardship Assistance Grant Program and the Veterans' Aid Loan Program which provides grants and loans to eligible veterans and their spouses, widows, or widowers. The Administrative Committee's subcommittee for the Department passed a motion that all grant and loan requests of

The Committee is lacking formal policies and procedures for supervising the Department as well as for the responsibilities and operations of the Committee.

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## Chapter 2

### Management and Organizational Structure

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Committee members and Department employees were to go to the subcommittee. However, no formal guidance was established as to the procedure to follow when this occurred and we noted different procedures were used when grant and loan applications were received and either approved or disapproved. In addition, since the grant and loan requests may contain confidential information, there should be a formal policy and procedure to assist in ensuring such information is kept confidential.

#### Recommendation 2-3

We recommend the Administrative Committee on Veterans' Affairs develop formal policies and procedures. At a minimum, these policies and procedures should address:

- a) The supervision and monitoring of the Department of Veterans' Affairs;
- b) The application process for requesting funds from the Veterans' Postwar Trust Fund;
- c) The use of the Veterans' Aid Fund and the Veterans' Postwar Trust Fund moneys; and
- d) The approval process for grant and loan requests made by members of the Committee or employees of the Department.

#### Management's Response

Agree. This will be incorporated into our strategic planning process for further action.

#### *Reducing Committee Size and Modifying Appointment Process*

The Administrative Committee on Veterans' Affairs is a 15-member committee with 3 members representing each of the 5 major veteran organizations in the state. Every year, each of the five veteran organizations is to submit a list containing the names of two individuals who qualify as a veteran to the Governor for appointment or reappointment. Based on information provided by representatives of the veteran organizations and the Department of Veterans' Affairs, the three members from each of the major veteran organizations are not representative of the membership of the veteran organizations. For example, while each veteran organization has 20% representation on the Committee, the American Legion has approximately 23,000 members while the Vietnam Veterans of America have a membership of less than 300.

The Committee's membership is not representative of the veteran organizations and the Committee is too large.

The performance audit conducted of the North Dakota Veterans' Home (report #3019) identified that the Committee's size should be reduced and we determined this recommendation is still applicable. The subcommittee responsible for the supervision and government of the Department is comprised of seven committee members. It does not appear reasonable that the subcommittee assigned supervisory responsibilities is larger than the entire Department (six employees).



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## Chapter 2

### Management and Organizational Structure

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#### Recommendation 2-4

We recommend the Administrative Committee on Veterans' Affairs take appropriate action to modify North Dakota Century Code Section 37-18.1-01 to reduce the Committee membership size and modify the Committee appointment process.

#### Management's Response

Agree. The ACOVA agrees to study and research the proposal through the strategic planning process, review alternatives, and propose legislation if necessary.

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#### Adding a Conservatorship Program

In certain circumstances, the federal Department of Veterans' Affairs will determine that a veteran is unable to handle their financial affairs and an individual must be identified to account for the veteran's money and pay the financial obligations of the veteran. The individual responsible for a veteran's financial affairs is commonly referred to as a conservator or a fiduciary. The conservator is bonded and is able to receive a certain percentage of the veteran's income as compensation for performing the conservatorship duties.

While two employees of the Department of Veterans' Affairs are conservators for veterans, these duties were not to be performed during state time or using state resources, as the Department did not have a conservatorship program. Based on discussions with Department staff, the Department had explored adding a conservatorship program and even hired an individual in 1993 to develop a conservator program but the program was not developed.

Conservators appear to be needed for a number of veterans in the state.

In discussions with Department staff and individuals at the federal Department of Veterans' Affairs Regional Office in Fargo, there is a need for conservators for veterans in the state. These veterans are in need of assistance and the Department has the authority to implement programs and benefits for veterans. In a review of other states, we noted six states that offer a conservatorship program for their veterans. In discussions with these six states, it appears five of the states recover either all or a percentage of costs of the program through the amount a conservator is eligible to receive from the veteran's income.

#### Recommendation 2-5

We recommend the Administrative Committee on Veterans' Affairs and the Department of Veterans' Affairs take appropriate action to add a conservator program to the Department's responsibilities and duties. The Administrative Committee and the Department should:

- a) Review this area with the Office of Attorney General to identify legal requirements and issues with conservatorships;
- b) Review the resources required for this new program and determine whether job duties and responsibilities need to be reassigned between the Fargo main office and the Bismarck branch office;
- c) Establish formal guidelines and policies for the operation of a conservator program and review the guidelines on a periodic basis; and

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## Chapter 2

### Management and Organizational Structure

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- d) Establish management controls to ensure compliance with the guidelines and policies and to monitor the programs efficiency and effectiveness.

#### Management's Response

Agree. The ACOVA agrees to study and research the proposal through the strategic planning process, review alternatives, and propose legislation if necessary. We will also coordinate with the guardianship study group and Legislative Council as required.

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#### Reviewing a Position's Duties and Responsibilities

One of the six Department of Veterans' Affairs employees is responsible for processing federal claims at the federal Department of Veterans' Affairs Regional Office in Fargo. The employee spends a few hours each morning at the Department of Veterans' Affairs' main office and the remainder of the day at the federal Regional Office.

When a veteran is attempting to receive federal benefits, the veteran can receive assistance from a County or Tribal Veterans' Service Officer in completing a claim. The veteran may select an organization and the corresponding veteran service officer at the Regional Office who will process the claim and monitor the federal Department of Veterans' Affairs actions on the claim. There are six organizations at the Regional Office that can be selected for processing the claim. Each veteran service officer is accredited by certain veteran organizations to process claims for veterans and an applicant does not need to be a member of the respective veteran organization to use the service officer accredited with that veteran organization. The organizations include:

- American Legion;
- Disabled American Veterans (DAV);
- AMVETS (Veterans of World War II, Korea, and Vietnam);
- Veterans of Foreign Wars (VFW);
- Minnesota Department of Veterans' Affairs; and
- North Dakota Department of Veterans' Affairs who is accredited with the Blinded Veterans' Association, Military Order of the Purple Heart, Non Commissioned Officers Association (NCOA) of the USA, Retired Enlisted Association, Veterans' of World War I of the USA, and Vietnam Veterans of America.

The Department of Veterans' Affairs uses general funds to support the position processing federal claims (office space at the Regional Office is provided at no cost to the Department). The four veteran organizations in the state that have their own national service officers are providing the funding and support for the position(s) processing federal claims and providing other assistance to veterans and their dependents. The Department does not receive additional funds from the organizations it is accredited with and thus, the state is supporting a position that is providing service to veterans that is also provided by non-state entities.



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## Chapter 2

### Management and Organizational Structure

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The Department's claims position is providing a service that is provided by non-state entities and due to limitations on resources available to the Department's claims position, the most effective and beneficial assistance and service may not be provided.

The Department's employee processing federal claims appears to have limitations with the assistance they can provide to veterans. For example, if a decision on a claim is to be appealed, the Department's employee is only able to provide assistance on an appeal heard locally. If the appeal were to go to Washington, D.C., the Department employee would not be able to provide assistance. The National Veterans' Service Officers are able to handle appeals heard locally and also have resources available to provide assistance if appeals are to be heard in Washington, D.C. In addition, the National Veterans' Service Officers are receiving annual training and the Department's employee has received minimal training in the past few years regarding federal claims. Due to these limitations, the most effective and beneficial assistance and service may not be provided by the Department.

In discussions with Department staff, we noted a lack of sufficient monitoring of the employee's work at the Regional Office and the Department was unable to identify current or reliable data related to the number of claims processed or worked on. Thus, we were unable to conduct a thorough analysis of the position.

#### Recommendation 2-6

We recommend the Department of Veterans' Affairs, in conjunction with the Administrative Committee on Veterans' Affairs, conduct a thorough, documented analysis of the Department's position at the Fargo Regional Veterans' Administration Office to determine whether this position should continue processing federal claims for benefits or if the position could be used to perform other responsibilities of the Department of Veterans' Affairs. This analysis should:

- a) Identify relevant and accurate information regarding the authority and resources available to the claims position and the number of claims processed by this position;
- b) Compare this information to the authority, resources, and claims information of the National Veterans' Service Officers; and
- c) Include input from the County and Tribal Veterans' Service Officers, the National Veterans' Service Officers, representatives of the Fargo Regional Veterans' Administration Office, and other significant stakeholders.

If it is determined that the position will no longer be used to process federal claims for benefits, the Department of Veterans' Affairs should:

- a) Establish sufficient monitoring techniques for County and Tribal Veterans' Service Officers;
- b) Work closely with and/or have periodic meetings with National Veterans' Service Officers to assist in identifying where improvements are required and offer the necessary training; and
- c) Review the functions and responsibilities of the Department of Veterans' Affairs and determine whether the allocation of resources between the Fargo main office and Bismarck branch office is reasonable.

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## Chapter 2 Management and Organizational Structure

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### Management's Response

Agree. Demographic data will be gathered and this issue will be analyzed in the strategic planning process.

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### Improving Employee Supervision

Department employees are not properly evaluated and supervision is not as effective as it should be.

North Dakota Administrative Code Section 4-07-10-04 requires a performance review of an employee to be conducted at least annually. In a review of performance review information, we noted none of the Department's employees had performance reviews conducted annually.

Of the Department's six employees, three are to report to and be directly supervised by the Commissioner. One of the employees the Commissioner is to supervise is located at the Bismarck branch office. There is no formal job description for this position, the employee in the position has had only two performance reviews conducted since 1994, and the Commissioner noted problems with supervising this position which has been located in Bismarck for over 10 years. Another employee the Commissioner is to supervise is only at the Department's main office for a limited amount of time, as the employee is processing claims at the federal Department of Veterans' Affairs Regional Office. There is very limited formal supervision or monitoring of the employee's claims work.

### Recommendation 2-7

We recommend the Department of Veterans' Affairs make appropriate changes to ensure employees are properly supervised and monitored. At a minimum, the Department should:

- a) Modify the organizational chart;
- b) Develop job descriptions for each position; and
- c) Comply with North Dakota Administrative Code Section 4-07-10-04 and ensure performance reviews of employees are completed at least annually.

### Management's Response

Agree. The Department of Veterans' Affairs intends to ensure annual performance reviews are completed and all job descriptions will be reviewed and updated.

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### Making Improvements with CVSOs

County Veterans' Service Officers (CVSOs) are appointed by the respective Board of County Commissioners. The CVSOs are to provide service and assist veterans and dependents with questions they may have, as well as assisting veterans and dependents with completing applications for federal and state benefits. Three Tribal Veterans' Service Officer positions have also been established. Through a review of information and tests performed related to the CVSOs, we noted the Department is not in compliance with North Dakota Century Code requirements and certain requirements may need modification. In addition, the Department could work with appropriate county personnel in an attempt to consolidate CVSOs to improve service to veterans at the county level.

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#### *Making Changes with Supervising and Directing the Work of CVSOs*

North Dakota Century Code (NDCC) Section 37-18-04 states it is the duty of the Commissioner to assist, supervise, advise, and direct the work of CVSOs. NDCC Section 37-14-18 states it is the duty of the CVSO under the supervision of the Commissioner to cooperate and coordinate activities of state and federal agencies in the county to facilitate their operation and ensure promptness in the solution of problems concerned with reestablishment of returning servicemen and women in civilian pursuits.

In a review of information and discussions with Department personnel and selected CVSOs, the following was identified:

- Management of the Department noted a monthly activity report that is to be submitted by the CVSOs is used for supervision purposes. While the Department's formal policy requires monthly activity reports to be submitted, we noted the majority of counties are not submitting this information. For example, of the 52 CVSOs (Morton and Oliver Counties share a CVSO) we noted only 8 submitted all activity reports from July 1, 2001 through December 31, 2003. In the same time period, we noted 18 CVSOs did not submit any activity reports and 7 CVSOs submitted 5 reports or less.
- When activity reports are submitted by the CVSOs, the Department does not review this information or compare it to previous reports to determine whether the activities noted are reasonable or undergoing change. The reports received are basically filed by the Department and appear to only be used to identify work performed by the CVSO when the Department supports a CVSO who has budget/salary concerns at the county level.
- The Department does not conduct evaluations of the CVSOs and management of the Department had concerns about evaluating the performance of over 50 individuals scattered across the state.
- The Department has visited a limited number of the CVSOs' place of business. In July 2001, the Administrative Committee on Veterans' Affairs, through its subcommittee for the Department, determined a goal for the Department was to have the Commissioner periodically visit the CVSOs' offices. We identified the Department conducted eight site visits to CVSOs. In a review of documentation, the site visits appear to add very little value or benefit as information collected could have easily been obtained without a site visit. In addition, in discussions with four CVSOs who had a site visit in December 2001, one did not recall the visit and the other three identified the visit did not provide assistance. Two CVSOs noted the site visit lasted a very minimal amount of time.
- While the Department is responsible for supervision of the CVSOs, the Department does not have the authority to appoint CVSOs, set the salary of CVSOs, or reprimand CVSOs. Thus, the typical authority that goes with a supervision responsibility appears to be lacking.

**The Department does not supervise, monitor, or direct the work of the County Veterans' Service Officers.**

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- Management of the Department noted certain problems with the use of the term “supervision” and certain CVSOs also questioned the supervision of a county employee by a state entity.

Based on the review performed, the Department is in noncompliance with North Dakota Century Code as the Department does not supervise CVSOs, has limited procedures for monitoring the CVSOs’ work, and is not directing the work of CVSOs. There were concerns identified regarding the task of the Department supervising the large number of county employees. The Department may be better suited to be in a monitoring role of CVSOs and work with them to ensure their training needs are being met and that they are providing adequate service to veterans.

#### Recommendation 2-8

We recommend the Department of Veterans’ Affairs either:

- a) Establish management controls that assist in ensuring compliance with North Dakota Century Code requirements related to the Commissioner’s duty to assist, supervise, advise, and direct the work of County Veterans’ Service Officers; or
- b) Take appropriate action to modify the relevant North Dakota Century Code sections to change the Commissioner’s duties related to the County Veterans’ Service Officers.

If the Commissioner’s duties related to the County Veterans’ Service Officers are modified, the Department should establish management controls to ensure compliance with the revised duties.

#### Management’s Response

Agree. The overall structure of the relationship of authority between the CVSOs and the Department needs to be analyzed in the strategic plan and referred to the legislature for action.

#### *Enhancing County Service to Veterans*

In a review of the CVSOs’ hours of operation, we noted all counties do not have a full-time CVSO. Of the 53 counties in the state, only 20 have a CVSO who has hours of operation that are in excess of 35 hours per week. There are 10 counties that have a CVSO with hours of operation identified as anytime, flexible, or no regular hours; 3 counties have a CVSO that is not available on a weekly basis (for example, office is open two days a month); and 12 counties that have regular weekly hours of 16 hours or less a week. In addition, a number of CVSOs are conducting work from their homes and do not have an office location for veterans or their dependents to visit. The Department’s draft strategic plan notes that counties that have part-time individuals working out of their homes are less productive in taking care of veterans, and management noted that veterans dislike and are uncomfortable going to a CVSO’s home.

Due to the relatively low number of hours of operation in certain counties, assistance and service to veterans may not be the same from county to county and veterans in certain counties may not be receiving adequate assistance and service. As a result, veterans may not be aware of benefits available to them or are not receiving the full benefits they are eligible for and entitled to. Within the audit time period, we

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Due to the hours of operation of certain County Veterans' Service Officers, adequate assistance and service to veterans may be lacking.

identified 14 counties that did not have a veteran or eligible dependent receive a grant or a loan from the Department and management noted there were counties that had never submitted a grant or loan application.

The combination of full-time and part-time CVSOs creates different training requirements and needs. The Department must be able to balance different training requirements at the semi-annual training seminars and provide training that is not too technical for part-time CVSOs and training that is technical enough or what is required for full-time CVSOs.

Except in limited circumstances, each county has their own CVSO and due to apparent budget constraints, funding is not available for a full-time CVSO or County Commissioners have not identified the necessity and benefit of having a full-time, qualified CVSO. Morton and Oliver Counties share a CVSO and Dunn and Stark Counties are to share a CVSO starting in January 2004. There may be an option for more than two counties being consolidated and having counties combined into a region. This would be similar to the structure of the Child Support Enforcement Program, which is a state supervised, county administered program with services provided by eight regional units located throughout the state.

A number of advantages were identified with consolidation, including increased CVSO productivity, better trained CVSOs, and a reduction in the number of CVSOs having to work out of their homes. These advantages should result in CVSOs performing their duties in a more effective manner, which would lead to better service to veterans. This, in turn, can result in additional money being provided to veterans, as additional federal claims are properly completed and veterans are receiving grants and loans from the Department.

#### Recommendation 2-9

We recommend the Department of Veterans' Affairs be proactive and work with the Association of Counties as well as County Commissioners to improve county service to veterans by consolidating County Veterans' Service Officers.

#### Management's Response

Agree. This will be reviewed further and the Department will initiate appropriate action.

#### *Reviewing CVSO Policies*

The Department has established formal policies related to orientation training for CVSOs and for certification criteria related to both the County and Tribal Veterans' Service Officers. The orientation training policy required CVSOs to spend one day at the Department, one day at the federal Department of Veterans' Affairs Regional Office in Fargo, and one day at the Veterans' Home. In a review of recently appointed CVSOs, we noted they were not spending a day of training at each of the three locations.

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There is noncompliance with Department policies related to County Veterans' Service Officers orientation training and certification.

The Department's formal policy related to certification for County and Tribal Veterans' Service Officers requires the service officer to attend the semi-annual training conferences, submit monthly activity reports, and complete an annual certification survey. We noted service officers were not attending the semi-annual training conferences and, as noted previously, most service officers are not submitting monthly activity reports. The annual certification survey is mailed to the service officers prior to training, the service officers score the survey or test themselves, and the Department does not see results of the survey and thus, is unable to identify similar problem areas where additional information or training may need to be provided.

Department management noted that the certification program was developed with the CVSO Association to give credibility to service officers. According to the Department, over time the service officers determined that the certification requirements did not need to be met and there was not anything requiring them to adhere to the requirements. However, the Department did identify a letter it received from an Assistant Attorney General that concluded that North Dakota Century Code authorized the Commissioner to require a CVSO to follow statewide policies adopted by the Department but identified there is no penalty or ramification for CVSOs who do not follow the policies other than saying they are not in compliance with the law.

#### Recommendation 2-10

We recommend the Department of Veterans' Affairs review the policies related to orientation training and certification of service officers and make the necessary modifications to the policies or take appropriate action to ensure compliance with the policies.

#### Management's Response

Agree. We will review the policies and take appropriate action.

#### *Ensuring Compliance with CVSO Appointments*

North Dakota Century Code Section 37-14-18 states that the CVSO appointment by the Board of County Commissioners is to be made with the prior advice of the Commissioner of the Department. In a review of recently appointed CVSOs, we noted the Department did not provide any information or assistance to the county in three appointments and provided only a letter to the County Commissioners identifying information about CVSOs, veterans' preference, and offering the assistance of the Department in two other appointments. Thus, there is noncompliance with state law as advice was not provided by the Department.

#### Recommendation 2-11

We recommend the Department of Veterans' Affairs establish management controls to ensure compliance with the North Dakota Century Code Section 37-14-18 requirement to provide advice in the appointment of County Veterans' Service Officers or take appropriate action to modify the Century Code section.



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#### Management's Response

Agree. We will review this section of law and determine if changes need to be made.

#### *Modifying Century Code*

North Dakota Century Code Section 37-18-04 identifies a duty of the Commissioner is to assist county service officers in the formation of county service to veterans' committees and to outline, assist, and direct the activities of such committees. Through review of other state laws and discussions with management of the Department and other veterans, we were unable to identify the veterans' committees this section was attempting to identify.

#### Recommendation 2-12

We recommend the Department of Veterans' Affairs review the North Dakota Century Code Section 37-18-04 duty of the Commissioner to assist county service officers in the formation of county service to veterans' committees and to outline, assist, and direct the activities of such committees and either take appropriate action to modify the Century Code section or comply with this section.

#### Management's Response

Agree. We will research the history of the code. If no longer required, it is recommended it be deleted.

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#### Developing Strategic Plans

The Department has developed a draft strategic plan, dated April 2003, identifying certain planning information. The plan does not identify a mission or vision statement and does not establish adequate performance measurements or standards. Department management noted this was the first attempt at developing a strategic plan. The Administrative Committee on Veterans' Affairs has not developed a strategic plan and thus, has been lacking a formal plan to guide the Committee's actions. It appears a consultant is to be hired to assist both the Department and the Administrative Committee develop and finalize a strategic plan if funding becomes available. A number of recommendations included in this performance audit report, such as adding a conservatorship program and reviewing the organizational structure, should provide assistance and issues that need to be addressed in this process.

#### Recommendation 2-13

We recommend the Administrative Committee on Veterans' Affairs and the Department of Veterans' Affairs develop a strategic plan with significant input from stakeholders establishing a long range plan for the Committee and the Department as well as performance measures and standards for the Department. The information provided in this performance audit should be considered and included in the planning process.

#### Management's Response

Agree. We have obtained funding from the Emergency Commission, selected a consultant, and initiated the strategic plan.

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#### Improving Dissemination of Information

The Department is not proactive in disseminating information to veterans and dependents.

North Dakota Century Code Section 37-18-04 states, in part, that it is the duty of the Commissioner to disseminate information and to do any and all things necessary to carry out the purpose of NDCC Chapter 37-18 ("Department of Veterans' Affairs"). The Department uses its web site, a brochure, and occasional newsletters to County and Tribal Veterans' Service as the main methods of distributing information. In review of this information, we noted:

- Information contained in the brochure related to County and Tribal Veterans' Service Officers hours of operation was not consistent with the hours of operation information on the Department's web site. In addition, we identified the hours of operation information on the Department's web site required changes to provide updated information.
- The brochure does not identify the Department's web site address or the Bismarck branch office.
- The brochures do not appear to be widely distributed across the state and the Commissioner is unaware of whether information related to the Department is available at the veteran organization posts across the state.
- There was no information on the Department's web site related to Job Service North Dakota (JSND) or the programs available through JSND. After addressing this with Department staff, an address link was added to allow users to go directly to JSND information related to veteran programs (employment and training services). In addition, we noted it was difficult for a user to find information on veterans' programs on the web site for JSND. The JSND Director is an ad hoc member of the Administrative Committee on Veterans' Affairs.

The Department is not proactive in disseminating information regarding the Department and the benefits and services available to veterans. As a result, veterans may be unaware of and not benefiting from programs and assistance that are available to them.

#### Recommendation 2-14

We recommend the Department of Veterans' Affairs comply with North Dakota Century Code Section 37-18-04 regarding dissemination of information and be more proactive in informing veterans and the public about programs and services available. At a minimum, the Department should:

- a) Develop an effective way of distributing information and brochures;
- b) Add the Department's web site address and the Bismarck branch office phone number to brochures;
- c) Update information on the Department's web site and information in the brochure regarding County and Tribal Veterans' Service Officers' hours of operation; and
- d) Contact Job Service North Dakota regarding the accessibility to veterans service information on the Job Service web site.



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#### Management's Response

Agree. A link has been added to the Department's website. Other areas in the recommendation will be reviewed.

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## Financial Resources

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### Introduction

One of the goals of this performance audit was to answer the following question:

“Is the Administrative Committee on Veterans’ Affairs and the Department of Veterans’ Affairs using financial resources efficiently and effectively?”

Through tests and reviews performed, we noted improvements could be made to increase the efficiency and effectiveness of the uses of resources available to the Administrative Committee on Veterans’ Affairs and the Department of Veterans’ Affairs. The Department should make changes to their budget and ensure proper appropriation authority is obtained.

The Department should make changes to the Veterans’ Aid Loan Program to ensure proper policies and procedures exist and that policies and procedures are complied with. The Department needs to make improvements with the accounting of the loan program and should reduce the amount of correspondence involved with the program. In addition, the Department should make changes as to when one-half of the interest on loans is waived as well as the process for waiving one-half of the interest. The Department also needs to make improvements relating to loan accounts turned over for collection and how loans are monitored. The Department should also conduct a review to ensure the amount of administration expenses charged to the Veterans’ Aid Fund is reasonable.

The Department should make changes to the Emergency Hardship Assistance Grant Program by no longer requiring grant applications to be submitted to the Bismarck branch office, ensuring proper policies and procedures exist, and ensuring policies and procedures are complied with. The Department also needs to make changes to how the obligated and outstanding grant amount is calculated and reported.

The improvements noted above are discussed in this chapter and improvements of less significance were communicated to management in a separate letter.

To determine whether financial resources were used efficiently and effectively, we:

- Reviewed laws, policies, and procedures related to the Veterans’ Postwar Trust Fund and the Veterans’ Aid Fund;
- Reviewed management controls related to the use of these funds; and
- Interviewed selected Administrative Committee on Veterans’ Affairs members and Department staff.

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#### Obtaining Appropriation Authority

In a review of the Department of Veterans' Affairs expenditures, we noted the following three sources of funds are used to pay salaries and operating expenditures of the Department:

- General Fund;
- Veterans' Aid Fund; and
- Veterans' Postwar Trust Fund.

The Legislature provides appropriation authority for the Department's use of general funds. The Department has continuing appropriation authority for the moneys in the Veterans' Aid Fund and it does not appear that the Legislature is required to appropriate this money each Legislative Session. The Administrative Committee on Veterans' Affairs has continuing appropriation for the interest income of the Veterans' Postwar Trust Fund but this continuing appropriation does not extend to the Department.

**No appropriation authority has been provided to the Department for grants to individuals.**

The Emergency Hardship Assistance Grant Program administered by the Department uses interest income from the Veterans' Postwar Trust Fund to provide grants to eligible individuals in need of dental work, eye glasses, hearing aids, transportation for medical treatment, or other medical needs. In the 2001-2003 biennium, approximately \$157,000 of Veterans' Postwar Trust Fund moneys were used by the Department for grants to individuals. In addition, approximately \$72,000 of Veterans' Postwar Trust Fund moneys were used to pay Department employees' salaries and benefits as well as other Department operating expenditures (rent, data processing, etc.). No appropriation authority was obtained by the Department for grant expenditures or for salary and operating expenditures.

We identified two North Dakota Century Code (NDCC) sections relating to the Department's appropriation authority. NDCC Section 37-14-11 states the Department may expend, for any purpose necessary in the administration of NDCC Chapter 37-14, sums not to exceed the amount appropriated by the Legislative Assembly. NDCC Section 37-18-04 identifies that the Department may accept and expend funds from any source, including interest earnings from the Veterans' Postwar Trust Fund, and expend the funds for lawfully authorized programs of benefit and service to veterans or qualified veterans' spouses as authorized by the Administrative Committee on Veterans' Affairs with the approval of the Emergency Commission. Information provided by the Office of Attorney General, including a 1992 formal Attorney General's Opinion, identified that the Administrative Committee on Veterans' Affairs can expend the interest income of the Veterans' Postwar Trust Fund, however, if the Committee granted such moneys to a state entity, the state entity must have a legislative appropriation before it can spend the money.

The Department does not have the proper appropriation authority to receive and expend moneys it is granted by the Administrative

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Committee on Veterans' Affairs through the Veterans' Postwar Trust Fund to pay grants to individuals. Representatives of the Office of Management and Budget (OMB) claim the salaries, benefits, and other operating expenditures of the Department that are paid by moneys of the Veterans' Postwar Trust Fund are not paid by the Department but instead are paid directly by the Administrative Committee on Veterans' Affairs. OMB representatives stated it is the Administrative Committee's decision to determine whether to pay these expenditures. The Administrative Committee appears to obligate a certain amount of moneys for selected Department salaries, benefits, and other operating expenditures based on estimated amounts provided by the Department. The Administrative Committee is not providing approval for each expenditure as occurred but obligates a lump sum amount to the Department. In effect, the Administrative Committee is providing the Department moneys to pay Department expenditures and based on information provided by the Office of Attorney General, it appears the Department should obtain appropriation authority for these expenditures.

#### Recommendation 3-1

We recommend the Department of Veterans' Affairs take the necessary action to ensure proper appropriation authority is obtained for accepting and expending moneys the Department receives from the Veterans' Postwar Trust Fund or take the necessary action to modify North Dakota Century Code related to the Veterans' Postwar Trust Fund.

#### Management's Response

Agree. Further research will be done with OMB and the Attorney General's Office to determine whether an Attorney General's opinion is required, North Dakota Century Code needs to be modified, or another avenue may be available.

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#### Making Improvements to the Loan Program

Through a review of a sample of loans and loan applications that were disapproved, there are changes with the Veterans' Aid Loan Program that can be made to increase the efficiency and effectiveness of the program. We noted improvements could be made with policies, compliance with policies, and the accounting of the loan program. In addition, we identified the Department could reduce the correspondence associated with the loan program and make additional improvements with the waiving of interest, accounts turned over for collection, and the monitoring of loans. A review of administration expenses from the Veterans' Aid Fund should also be conducted. Additional information related to the Veterans' Aid Loan Program is included in Appendix B.

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#### *Improving the Loan Application and Approval Processes*

Through the Veterans' Aid Loan Program, the Department provides loans (maximum of \$5,000) to eligible veterans or their unmarried widow/widowers. The Department has established certain policies and criteria for the program. Information from applicants is obtained through an application form and the information provided by applicants is, for the most part, self-declared information with the Department obtaining very little, if any, documentation or other evidence that the information is accurate or reasonable. Application forms are typically completed with assistance of the County or Tribal Veterans' Service Officers and are then submitted to the Department for processing.

Through a review of the Veterans' Aid Loan Program Policy Manual, a sample of loan information, and discussions with Department staff, a number of areas were identified in which improvements are needed. Examples noted included:

- To be eligible for a loan, an applicant must have the financial ability to make payments. Applicants are to identify their monthly income and expenditures which the Department uses to determine whether an applicant has the ability to make payments on a loan. In a review of 30 loans made by the Department, we identified 28 loans in which the Department did not obtain information to support the income identified by the applicant. The Tax Commissioner has previously refused our request to access tax returns. Therefore, we were unable to determine whether the income claimed by applicants was reasonable. In a review of 30 loans made by the Department, we were able to identify 2 loans in which an unreasonable monthly net income amount was noted based on information provided by the applicant and/or information identified in the applicant's credit report. For example, the application for one of the loans identified a negative monthly net income amount. The applicant then provided additional income information for five months from a part-time job. Instead of using an average for these five months, the largest monthly income amount was used. If an average of the five months of income had been used, the applicant would still have had a negative monthly net income.
- To be eligible for a loan, an applicant is to be a resident of the state for a minimum of one year. There does not appear to be verification by the Department or assurance obtained from the County or Tribal Veterans' Service Officer that an applicant has lived in the state for at least one year.
- The Department has the ability to obtain credit reports for applicants and the Veterans' Aid Loan Program Policy Manual identifies that an applicant must have a good credit history which is to be determined from analyzing the contents of a credit report. In a review of 30 loans made by the Department, we identified 9 loans were approved without obtaining a credit report and 4 were approved based on credit reports that were a year old or older. Of the 17 loans that had credit reports obtained in the application process, we noted 9 were approved when the applicant had a relatively poor credit history and

**The Department does not verify information provided by applicants and approved loans to individuals who did not appear to qualify for the program.**

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the credit reports for these applicants identified bankruptcies, accounts being turned over for collection, and/or accounts that were past due.

- We identified individuals who received both a loan and a grant (through the Department's Emergency Hardship Assistance Grant Program) from the Department within a relatively short time period. While a loan is made to an individual who is to have the financial ability to make payments, a grant is made to an individual who does not have the financial ability to pay for needed services (a grant is not paid back to the Department). We question whether it was reasonable for an individual to receive both a loan and grant from the Department over a relatively short period of time. In addition, questions were raised as to the accuracy of information provided on the loan and grant applications. For example, an individual approved for a \$2,500 loan was approved for a \$250 grant the next day. The grant application identified a monthly net income amount of a negative \$161 while the loan application, received two days later, identified a monthly net income of \$70. Thus, within two days, an individual's monthly net income allegedly increased \$231. We also identified an individual who was approved for three grants within a week and approved for a \$5,000 loan a week later. The grant application identified a monthly net income amount of a negative \$330 while the loan application, received less than a month later, identified a monthly net income of \$239. Thus, in less than a month, an individual's monthly net income allegedly increased \$569. Both of these examples identify increases in monthly net income which do not appear reasonable and raise questions as to which, if either, application is identifying accurate information.
- According to the Veterans' Aid Loan Program Policy Manual, the purpose for a loan was to be for temporary unexpected financial emergencies and was not to be used to pay past due bills or to consolidate bills. Through a review of 30 loans made by the Department, we identified a number of loans which did not appear to meet the purpose of the program, such as having a loan to purchase a small tractor and to pay off a TV and stereo. However, in January 2004, the Administrative Committee on Veterans' Affairs' Subcommittee on the Department of Veterans' Affairs recommended the emergency language be removed. While this change should allow more individuals to apply for loans and, in turn, generate additional revenue through interest, the Department needs to modify policies to reflect this change.

While the Department has established policies for the Veterans' Aid Loan Program, the policies appear to be in need of review and revision to ensure adequate guidance is available to enhance consistent application of processes and procedures. In addition, the Department should establish additional controls to ensure loan criteria, policies, and procedures are complied with. Otherwise, the Department may approve loans for individuals who are not meeting the criteria of the program and,

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thus, reduce the amount of moneys available to provide loans to qualified applicants.

#### Recommendation 3-2

We recommend the Department of Veterans' Affairs review and make the necessary changes to the Veterans' Aid Loan Program Policy Manual and application form. At a minimum, the Department should review:

- a) How information related to residency and the applicant's income can be verified;
- b) What guidelines to establish for obtaining and analyzing a credit report for applicants;
- c) What action is to be taken when loan applicants have been approved for a grant; and
- d) What the County and Tribal Veterans' Service Officers responsibilities are in the loan application and approval process.

#### Management's Response

Agree. The policy manual will be updated and adhered to.

#### Recommendation 3-3

We recommend the Department of Veterans' Affairs establish management controls to ensure compliance with criteria, policies, and procedures of the Veterans' Aid Loan Program. At a minimum, the Department should:

- a) Ensure the applicant meets residency requirements;
- b) Ensure the applicant has the financial ability to repay the loan; and
- c) Obtain and review information regarding the applicant's credit history.

#### Management's Response

Agree. We will establish controls in the policy manual to ensure compliance.

#### *Improving the Accounting of Loans*

In a review of the Veterans' Aid Loan Program and discussions with Department staff, we noted the accounting process used was not as efficient as it could be and required a number of manual processes. The Department uses a software package to determine how much of each loan payment is to be allocated to interest and principal. This software does not have the capability to track and monitor loans or produce aging reports. Thus, additional time is required of staff to enter information into another application to do these functions or to do them manually. A better use of technology could provide for more efficient accounting processes related to the loan program.

#### Recommendation 3-4

We recommend the Department of Veterans' Affairs improve the technology used in the accounting of the Veterans' Aid Loan Program.

#### Management's Response

Agree. We will review ways to improve the accounting process related to the loan program.



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#### *Reducing the Amount of Correspondence*

Through a review of the loan files maintained by the Department and discussions with Department staff, we noted changes could be made to reduce the amount of correspondence associated with the Veterans' Aid Loan Program. For example, correspondence is being sent to the respective County or Tribal Veterans' Service Officer when routine payments are received by the Department. In addition, individuals are sent a receipt letter when loan payments are made. This correspondence does not appear to add value to the loan program. As a result, additional costs are incurred and employee time is being used when such resources could be used for other Department responsibilities.

Through a review of a sample of loan files, we identified correspondence from the Department that contained apparent unprofessional language. Department staff noted with certain loans, there is a level of frustration that exists in attempting to collect payments and the Department is attempting to stress the need and importance of making payments. For example, in a letter addressed to a loan applicant, the Commissioner writes, "Do you think we are stupid? You owe us \$1,000.00 from 1985. On that loan not one payment was made. Because of you, that money was not available to other veterans. I have nothing else to say on this matter."

#### **Recommendation 3-5**

We recommend the Department of Veterans' Affairs review the correspondence associated with the Veterans' Aid Loan Program and:

- a) Discuss with the County and Tribal Veterans' Service Officers the correspondence related to the loan program and identify correspondence which will no longer be provided unless specifically requested;
- b) Discontinue sending receipt letters for payments, unless specifically requested; and
- c) Ensure correspondence contains professional language.

#### **Management's Response**

Agree. Correspondence will be reviewed and streamlined.

#### *Improving the Waiving of Interest*

North Dakota Century Code Section 37-14-07 identifies interest, not to exceed 10%, can be assessed on loans and that one-half of the interest must be waived if timely repayment is made. The Department assesses 8% interest on loans and has limited policies related to what constitutes timely repayment of a loan. When one-half of the interest is to be waived, the Department issues a check for one-half of the interest payments made. In effect, the Department issues an interest refund check and incurs the costs associated with obtaining a check from the State Treasurer and mailing the check to the individual. To alleviate the need for an interest refund check, the Department could reduce the last payment(s) and thus, receive the final payment and waive the one-half interest simultaneously.

In a review of a random sample of 30 loans, 4 loans were identified as being paid off and all had one-half of the interest payments refunded.



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Two of these four loans should not have had the interest refunded due to the following:

The Department waived interest on loans when it was not required.

- One of the loans did not appear to have timely repayment. All 11 payments made were past due and included 5 payments that were 40 days or more over due. The Veterans' Aid Loan Policy Manual identifies the refund will be made provided timely payments have been made and the loan is repaid on or before its due date.
- One-half of the interest was refunded when a second loan was granted while an original loan was still active. The Veterans' Aid Loan Policy Manual identifies that the interest refund on the first loan is forfeited if an additional loan is granted while a veteran has an existing loan.

#### Recommendation 3-6

We recommend the Department of Veterans' Affairs make changes to the process of waiving one-half of the interest on loans when timely repayment is made by:

- a) Providing individuals who have made timely repayment the option to reduce their last payment(s) rather than having an interest refund check sent to them; and
- b) Establishing management controls to ensure interest is only refunded when timely repayment criteria is met.

#### Management's Response

Agree. Policy manual will be updated.

#### *Making Improvements in Accounts Turned Over for Collection*

North Dakota Century Code Section 37-14-07 identifies that the Department may take legal action to collect or settle loans. The Department's formal policy identifies that letters and personal contact are used in an attempt to collect payments and legal action can be taken on loans after they become six months delinquent. The Department turns loan accounts over for collection to an attorney who has been used since at least the 1980's.

The Department uses an attorney for collection of delinquent loans but does not monitor the collection performance.

There is no formal contract established with the attorney but a letter from 1987 states the attorney is to receive one-fourth of the amounts collected if payment is received before instigation of a lawsuit and one third of amounts collected after instigation of a lawsuit. We identified that the Department has very limited monitoring controls related to the performance of the attorney and the information maintained by the Department regarding accounts turned over for collection was inaccurate. Due to the lack of a formal contract and inaccurate information on accounts turned over for collection, we did not determine whether the performance of the attorney was reasonable or acceptable. We were able to identify that from July 1, 2001 through December 31, 2003, there was approximately \$21,700 collected on the accounts turned over to the attorney (includes loan payments and processing costs collected). Of this amount, approximately 61% was retained by the Department and the remaining 39% was used to pay the attorney and to pay processing costs associated with the collection efforts such as sheriff's fees, certified mail costs, and court filing fees.

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## Chapter 3

### Financial Resources

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#### Recommendation 3-7

We recommend the Department of Veterans' Affairs make improvements in the processes and procedures related to loan accounts turned over for collection by:

- a) Establishing a formal contract for collection work to be performed;
- b) Establishing monitoring controls to determine collection performance;
- c) Ensuring accurate information on accounts turned over is maintained; and
- d) Reviewing the contract on a periodic basis and contacting other providers to determine the reasonableness of the amounts being charged.

#### Management's Response

Agree. We will review the requirements for a new contract with the attorney and will give consideration to other areas noted in recommendation.

#### *Improving the Monitoring of Loans*

When timely payments are not received, the Department uses letters and personal contact in an attempt to collect payments. In a review of loan files and discussions with Department staff, we noted the Department does not appear to document all the collection efforts they are taking. In addition, there are apparent inconsistencies with collection efforts being taken by the Department. Examples noted included:

- In a review of 10 loans that had payment amounts more than 15 days past due, the Department attempted to contact the individual for 2 of the loans while the other 8 loans did not appear to have action taken on them.
- For two loans with similar payment histories, one loan account was turned over for collection after payments were not received for two months while the other loan account has not been turned over for collection after payments were not received for eight months.
- The Veterans' Aid Loan Program Policy Manual states legal action can be taken on loans after they become six months delinquent. In a review of 16 loans, we noted a loan account was turned over for collection prior to the loan being delinquent for six months.

The Department does not appear to document all collection efforts taken and collection efforts taken are inconsistent.

#### Recommendation 3-8

We recommend the Department of Veterans' Affairs establish management controls for the monitoring of loans. At a minimum, the Department should:

- a) Establish criteria related to timely payments and/or delinquent accounts;
- b) Ensure consistent action is taken when timely payments are not made and/or accounts are delinquent; and
- c) Ensure all collection efforts and actions taken are documented.

#### Management's Response

Agree. Policy manual will be updated.

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## Chapter 3 Financial Resources

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### *Reviewing Expenditures from the Veterans' Aid Fund*

No documentation exists to determine whether the amount of moneys from the Veterans' Aid Fund for administrative expenses is reasonable.

North Dakota Century Code Chapter 37-14 establishes a permanent revolving fund known as the Veterans' Aid Fund, to be used to make loans or advancements to a veteran or to a surviving spouse of a veteran if the spouse has not remarried. Moneys of the Veterans' Aid Fund can be used for collecting loans and for paying administrative expenses related to the making and collection of loans. Based on information from the Office of Attorney General, the Department of Veterans' Affairs has continuing appropriation for the Veterans' Aid Fund.

During the 2001-2003 biennium, the Department used the Veterans' Aid Fund to pay 25% of the salary and benefits of one Department position. The remainder of the salary and benefits of this position were paid from general funds (25%) and Veterans' Postwar Trust Fund moneys (50%). Due to general fund budget cuts, the Department increased the use of Veterans' Aid Fund moneys to pay 50% of the salary and benefits of the position for the 2003-2005 biennium. There is no documented analysis justifying the use of the additional Veterans' Aid Fund moneys to ensure there is a reasonable basis for allocating the expenditures to the fund and to ensure that the moneys are used in accordance with legislative intent.

### **Recommendation 3-9**

We recommend the Department of Veterans' Affairs conduct a formal review of expenditures from the Veterans' Aid Fund including a time study of employees' duties and determine whether the administrative expenses paid by the Veterans' Aid Fund are reasonable. This review should occur after other recommendations to enhance the efficiency and effectiveness of the loan program have been implemented.

### **Management's Response**

Agree. Analysis will be included in our strategic plan. The Administrative Committee feels these expenses should be appropriated to the Department from the General Fund and will advocate for this change.

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### **Making Improvements to the Grant Program**

Through a review of a sample of grants and grant applications that were disapproved, there are changes to the Emergency Hardship Assistance Grant Program that can be made to increase the efficiency and effectiveness of the program. We noted improvements could be made to where grant applications are submitted, grant policies and procedures, and compliance with grant policies and procedures. The Department should make changes to how the obligated and outstanding grant amount is calculated. Additional information related to the Emergency Hardship Assistance Grant Program is included in Appendix B.

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## Chapter 3

### Financial Resources

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#### *Changing Where Grant Applications are Submitted*

The Department uses an application form to collect information from applicants for an Emergency Hardship Assistance Grant. The grant applications are typically completed with assistance from a County or Tribal Veterans' Service Officer and sent to the Department. However, an application could be completed at one of the two Department offices. Grant applications completed by the County and Tribal Veterans' Service Officers in the western part of the state are to be sent to the Bismarck branch office where they are reviewed and submitted to the Fargo main office for another review and approval. Grant applications completed by County and Tribal Veterans' Service Officers in the eastern part of the state are submitted directly to the Fargo office.

Grant applications submitted to the Bismarck branch office results in an inefficient and ineffective process.

The process of having grant applications submitted to the Bismarck branch office results in an inefficient and ineffective process. Delays in processing a grant application occur as the grant application has to be reviewed in Bismarck and then mailed from Bismarck to Fargo rather than sent directly to Fargo. The grant application is being reviewed by two employees of the Department prior to the decision to approve or disapprove and the applications submitted directly to Fargo are reviewed once. In addition, information regarding applicants, such as prior grants, is maintained in Fargo and thus, information needed in the review of grant applications is not available to the Bismarck branch office. As a result, an incorrect conclusion can be made by the Bismarck branch office regarding the grant request and a review of a sample of grant applications submitted to the Bismarck branch office identified this as occurring.

#### **Recommendation 3-10**

We recommend the Department of Veterans' Affairs discontinue the process of having counties in the western part of the state submit grant applications to the Bismarck branch office.

#### **Management's Response**

Agree. Implemented recommendation.

#### *Improving the Grant Application and Approval Processes*

Through the Emergency Hardship Assistance Grant Program, the Department of Veterans' Affairs provides grants to eligible veterans and their spouses or their unmarried widows/widowers. Grants are awarded in one of five categories and the Department has established a maximum annual amount for each grant category. The grant categories include:

- Dental;
- Hearing;
- Optical;
- Transportation (for medical purposes); and
- Special.

The Department has established certain policies and criteria for the program. Information from applicants is obtained through an application form. The information provided by the applicants is, for the most part, self-declared information with the Department obtaining very little, if any, documentation or other evidence to verify its accuracy. Application

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## Chapter 3

### Financial Resources

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forms are typically completed with assistance of the County or Tribal Veterans' Service Officer and are then submitted to the Department for processing.

Through a review of the Emergency Hardship Assistance Grant Program Policy Manual, review of a sample of grant information, and discussions with Department staff, a number of areas were identified in which improvements are needed. Examples noted included:

- To be eligible for a grant, an applicant who entered service from another state must be a resident of North Dakota for at least one year prior to the date of application. In addition, applicants must be a veteran, spouse of a veteran, or an unmarried widow or widower. There does not appear to be verification by the Department or assurance obtained by the County or Tribal Veterans' Service Officer that an applicant meets residency requirements or is a qualified spouse, widow, or widower.
- To be eligible for a grant, an applicant's monthly income, less medical expenses, must be below a certain amount based on the number of dependents claimed by the applicant. If the applicant is employed or has worked in the last 12 months from the date of the application, income tax forms or pay stubs are to be included with the application. In a review of 50 grants made by the Department, 6 grants were identified where the applicant had worked in the last 12 months and did not include income tax forms or pay stubs with the application. The Department does not verify income information when the applicant has not worked in the last 12 months from the date of the application. The Tax Commissioner has previously refused our request to access tax returns. Therefore, we were unable to determine whether the income claimed by applicants was reasonable.
- To be eligible for a grant, the applicant's cash assets must be \$2,000 or less. The Department does not verify the cash assets of applicants. In a review of 50 grants made by the Department, 3 grants were identified where the applicant appeared to have over \$2,000 in cash assets and/or the cash asset information was not reasonable based on additional information submitted with the application. For example, an applicant identified they had \$7 of cash assets but an income tax return submitted with the application identified taxable interest of over \$85. We question the accuracy of the cash assets when taxable interest of this amount was identified.
- According to the Emergency Hardship Assistance Grant Program Policy Manual, the program is not to be used for dental maintenance procedures such as routine cleaning and annual check ups. Through a review of 31 dental grants made by the Department, 5 grants were identified where the Department paid for cleaning and other routine maintenance procedures. The total spent on maintenance procedures for the 5 grants was approximately \$450.
- We identified individuals who have received both a grant and a loan (through the Department's Veterans' Aid Loan Program) from the

**The Department does not verify information provided by applicants and approved grants to individuals who did not appear to qualify for the program.**

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### Chapter 3

#### Financial Resources

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Department within a relatively short period of time. While a grant is made to an individual who does not have the financial ability to pay for the needed medical services, a loan is made to an individual who is required to have the financial ability to make payments back to the Department. We question whether it was reasonable for an individual to receive both a grant and a loan from the Department in a relatively short period of time. In addition, questions were raised as to the accuracy of information provided. Examples are identified in the section entitled "Improving the Loan Application and Approval Process."

- Through a review of 39 grants in which the Department made payments for services or work performed, we identified 6 grants in which the services or work were performed prior to the Department apparently approving the grant. Department staff noted that in certain instances, they will give approval for the service or work to be done over the phone if an individual is in immediate need of the service or work. While an application is still submitted to the Department, the Department does not document the verbal approval and we were unable to determine whether verbal approval was given with the six grants.
- The Department has established a replacement time interval for three of the five grant categories, meaning an individual who has received a grant in a certain category is not eligible to receive a grant in the same category for a specified time. For example, a two year replacement time period is established for eye glasses. In a review of eight grants that had a previous grant in the same category, one did not meet the category replacement time period criteria.
- Through a review of 15 disapproved grant requests, we noted a request was disapproved due to the applicant having a relatively large number of previous grants. Department staff identified that certain individuals have received a number of grants and the grant program has started to become an insurance type of a program for certain individuals. There is no information within the Emergency Hardship Assistance Grant Program Policy Manual on denying grant requests due to the number of grants previously received or what action the Department is to take when it becomes aware of potential misuse of the grant program.

While the Department has established policies for the Emergency Hardship Assistance Grant Program, the policies appear to be in need of review and revision to ensure adequate guidance is available to enhance consistent application of processes and procedures. The Department should establish additional controls to ensure grant criteria, policies, and procedures are complied with. Otherwise, the Department may approve grants for individuals who are not meeting the criteria of the program and, thus, reduce the amount of moneys available to provide grants to qualified applicants.



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## Chapter 3

### Financial Resources

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#### Recommendation 3-11

We recommend the Department of Veterans' Affairs review and make the necessary changes to the Emergency Hardship Assistance Grant Program Policy Manual and application form. At a minimum, the Department should review:

- a) How information related to residency, spouse or widow status, monthly income, and cash assets can be verified;
- b) What action is to be taken, if any, when applicants have received an unreasonable number of grants or appear to use the grants for non-emergency purposes;
- c) What action is to be taken when grant applicants have been approved for a loan;
- d) When requests for immediate grant approval are acceptable and the documentation required for this; and
- e) What the County and Tribal Veterans' Service Officers responsibilities are in the grant application and approval process.

#### Management's Response

Agree. This will be reviewed in our strategic plan and an updated policy manual developed.

#### Recommendation 3-12

We recommend the Department of Veterans' Affairs establish management controls to ensure compliance with criteria, policies, and procedures of the Emergency Hardship Assistance Grant Program. At a minimum, the Department should:

- a) Ensure grant funds are used for qualified purposes;
- b) Obtain copies of tax forms or pay stubs of applicants;
- c) Ensure cash assets of applicants are \$2,000 or less;
- d) Ensure compliance with the grant category replacement time periods; and
- e) Ensure grant requests are disapproved in accordance with the criteria of the grant program.

#### Management's Response

Agree. We will establish controls in the policy manual to ensure compliance.

#### *Improving the Obligated and Outstanding Grant Amount*

The Department uses an Access application to identify and enter information related to the Emergency Hardship Assistance Grant Program. The application generates reports used to provide information and monitor the program. One report the application is to generate identifies the amount of grants obligated, the amount of grants paid, and the outstanding balance of grants. This report has a programming error and does not provide any information on the report. As a result, additional time must be spent to generate this information. In discussions with Department staff, it was noted there were questions regarding the calculation of the amount of grants approved and yet to be paid. Due to the amount of time and work it would have taken to verify the accuracy of the amount, we did not verify the amounts reported. Based on discussions with Department staff, we have limited assurance the amounts were accurate.

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## Chapter 3

### Financial Resources

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#### **Recommendation 3-13**

We recommend the Department of Veterans' Affairs review the obligated and outstanding grant amount, establish a policy for computing this amount, and take appropriate action to have the Access application generate such information in accordance with policy requirements.

#### **Management's Response**

Agree. Grant Access Program will be updated and we will request assistance from ITD.



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## Additional Information

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### Issues Requiring Further Study

“Government Auditing Standards” requires disclosure of significant issues identified during an audit that were not reviewed in depth. These are issues which are not directly related to the audit objectives or the auditors did not have the time or resources to expand the audit. We identified two issues that could be reviewed further – one related to the oversight and supervision of the Department of Veterans’ Affairs and the other related to “off budget” full-time equivalents.

#### *Oversight and Supervision of the Department of Veterans’ Affairs*

As required by North Dakota Century Code, the Administrative Committee on Veterans’ Affairs is responsible for the supervision and governance of the Department of Veterans’ Affairs. Our review identified deficiencies with how the Administrative Committee operated, supervised, and monitored the Department. Recommendations are made in this audit report relating to the Administrative Committee improving the supervision and monitoring of the Department including that the Committee comply with North Dakota Century Code, develop policies and procedures, reduce the Committee size, modify the Committee appointment process, and develop a strategic plan.

As required by auditing standards related to performance audits, our office will conduct a follow-up review of the status of the recommendations contained in this performance audit report. If significant changes are not identified with the operations of both the Administrative Committee on Veterans’ Affairs and the Department of Veterans’ Affairs during the follow-up review, an additional review could be performed to determine whether modifications to the Committee should be made or whether changes with the organizational structure should be considered. The review could determine whether the Department of Veterans’ Affairs should be under the supervision and control of another state entity with the Administrative Committee serving in an advisory role. In a review of other states, we did identify eight states having the equivalent of a Department of Veterans’ Affairs within or under the control of the Adjutant General. Five of these states (Alaska, Montana, South Dakota, Vermont, and Wyoming) are similar to North Dakota in population.

#### *“Off Budget” FTE*

While the Department of Veterans’ Affairs has six employees, the 2001-2003 biennium budget for the Department identified only five full-time equivalents (FTEs). This is because two Department employees have one-half of their salary and benefits paid with Veterans’ Postwar Trust Fund moneys. These funds are not appropriated to the Department and thus, are not included in the budget. Representatives of the Office of Management and Budget (OMB) identified this as an “off budget” FTE.

In discussions with OMB representatives, they noted certain state employees are not included within state entities’ budgets due to the Legislature removing these FTEs from the budget process or due to these employees’ salary and benefits being paid by continuing appropriated funds. OMB provided examples of state entities with “off budget” FTE including the agriculture commodity groups, the State Fair

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## **Chapter 4**

### **Additional Information**

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Association, and the North Dakota University System employees who have their salary and benefits paid by tuition funds. OMB was unable to identify to us the total number of “off budget” FTE.

OMB noted that any FTE funded with continuing appropriated dollars would be “off budget” meaning they do not run through the traditional budget and appropriation process. However, we noted the Department of Veterans’ Affairs uses the Veterans’ Aid Fund to pay the salary and benefits of an employee (one quarter of an FTE in the 2001-2003 biennium and one half of an FTE for the 2003-2005 biennium). The Department has continuing appropriation authority for this fund but the FTE was included in the budgets for both biennia. OMB also identified that they had learned the Office of Attorney General includes FTEs in their budget that are funded from continuing appropriations. There appears to be little consistency with including positions funded by continuing appropriations in the budget process.

A review could be performed to determine the number of state positions that are “off budget” and the reason(s) for these positions not being included in the budget. The review could also determine whether consistency exists in the budgeting process for these types of positions. The reviews could determine the effect or impact these positions have on the budget and whether a change is needed to enhance the consistency and accuracy of the budget process.

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# Appendices

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North Dakota Century Code Changes.....C1

## List of Recommendations

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- Recommendation 2-1** We recommend the Office of Attorney General determine if the Commissioner of the Department of Veterans' Affairs is in noncompliance with North Dakota Century Code Section 54-10-23 by obstructing or misleading the Office of the State Auditor or by hindering a thorough examination. In addition, the Office of Attorney General may want to determine if Department employees performed conservator duties on state time using state resources.
- Recommendation 2-2** We recommend the Administrative Committee on Veterans' Affairs:
- a) Comply with North Dakota Century Code Section 37-18.1-03 and ensure proper supervision and monitoring of the Department of Veterans' Affairs is provided; and
  - b) Ensure the effective dates of changes or additions to North Dakota Century Code are complied with.
- Recommendation 2-3** We recommend the Administrative Committee on Veterans' Affairs develop formal policies and procedures. At a minimum, these policies and procedures should address:
- a) The supervision and monitoring of the Department of Veterans' Affairs;
  - b) The application process for requesting funds from the Veterans' Postwar Trust Fund;
  - c) The use of the Veterans' Aid Fund and the Veterans' Postwar Trust Fund moneys; and
  - d) The approval process for grant and loan requests made by members of the Committee or employees of the Department.
- Recommendation 2-4** We recommend the Administrative Committee on Veterans' Affairs take appropriate action to modify North Dakota Century Code Section 37-18.1-01 to reduce the Committee membership size and modify the Committee appointment process.
- Recommendation 2-5** We recommend the Administrative Committee on Veterans' Affairs and the Department of Veterans' Affairs take appropriate action to add a conservator program to the Department's responsibilities and duties. The Administrative Committee and the Department should:
- a) Review this area with the Office of Attorney General to identify legal requirements and issues with conservatorships;
  - b) Review the resources required for this new program and determine whether job duties and responsibilities need to be reassigned between the Fargo main office and the Bismarck branch office;
  - c) Establish formal guidelines and policies for the operation of a conservator program and review the guidelines on a periodic basis; and
  - d) Establish management controls to ensure compliance with the guidelines and policies and to monitor the programs efficiency and effectiveness.

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## Appendix A

### List of Recommendations

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#### Recommendation 2-6

We recommend the Department of Veterans' Affairs, in conjunction with the Administrative Committee on Veterans' Affairs, conduct a thorough, documented analysis of the Department's position at the Fargo Regional Veterans' Administration Office to determine whether this position should continue processing federal claims for benefits or if the position could be used to perform other responsibilities of the Department of Veterans' Affairs. This analysis should:

- a) Identify relevant and accurate information regarding the authority and resources available to the claims position and the number of claims processed by this position;
- b) Compare this information to the authority, resources, and claims information of the National Veterans' Service Officers; and
- c) Include input from the County and Tribal Veterans' Service Officers, the National Veterans' Service Officers, representatives of the Fargo Regional Veterans' Administration Office, and other significant stakeholders.

If it is determined that the position will no longer be used to process federal claims for benefits, the Department of Veterans' Affairs should:

- a) Establish sufficient monitoring techniques for County and Tribal Veterans' Service Officers;
- b) Work closely with and/or have periodic meetings with National Veterans' Service Officers to assist in identifying where improvements are required and offer the necessary training; and
- c) Review the functions and responsibilities of the Department of Veterans' Affairs and determine whether the allocation of resources between the Fargo main office and Bismarck branch office is reasonable.

#### Recommendation 2-7

We recommend the Department of Veterans' Affairs make appropriate changes to ensure employees are properly supervised and monitored. At a minimum, the Department should:

- a) Modify the organizational chart;
- b) Develop job descriptions for each position; and
- c) Comply with North Dakota Administrative Code Section 4-07-10-04 and ensure performance reviews of employees are completed at least annually.

#### Recommendation 2-8

We recommend the Department of Veterans' Affairs either:

- a) Establish management controls that assist in ensuring compliance with North Dakota Century Code requirements related to the Commissioner's duty to assist, supervise, advise, and direct the work of County Veterans' Service Officers; or
- b) Take appropriate action to modify the relevant North Dakota Century Code sections to change the Commissioner's duties related to the County Veterans' Service Officers.

If the Commissioner's duties related to the County Veterans' Service Officers are modified, the Department should establish management controls to ensure compliance with the revised duties.

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## Appendix A

### List of Recommendations

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<b>Recommendation 2-9</b>	We recommend the Department of Veterans' Affairs be proactive and work with the Association of Counties as well as County Commissioners to improve county service to veterans by consolidating County Veterans' Service Officers.
<b>Recommendation 2-10</b>	We recommend the Department of Veterans' Affairs review the policies related to orientation training and certification of service officers and make the necessary modifications to the policies or take appropriate action to ensure compliance with the policies.
<b>Recommendation 2-11</b>	We recommend the Department of Veterans' Affairs establish management controls to ensure compliance with the North Dakota Century Code Section 37-14-18 requirement to provide advice in the appointment of County Veterans' Service Officers or take appropriate action to modify the Century Code section.
<b>Recommendation 2-12</b>	We recommend the Department of Veterans' Affairs review the North Dakota Century Code Section 37-18-04 duty of the Commissioner to assist county service officers in the formation of county service to veterans' committees and to outline, assist, and direct the activities of such committees and either take appropriate action to modify the Century Code section or comply with this section.
<b>Recommendation 2-13</b>	We recommend the Administrative Committee on Veterans' Affairs and the Department of Veterans' Affairs develop a strategic plan with significant input from stakeholders establishing a long range plan for the Committee and the Department as well as performance measures and standards for the Department. The information provided in this performance audit should be considered and included in the planning process.
<b>Recommendation 2-14</b>	<p>We recommend the Department of Veterans' Affairs comply with North Dakota Century Code Section 37-18-04 regarding dissemination of information and be more proactive in informing veterans and the public about programs and services available. At a minimum, the Department should:</p> <ul style="list-style-type: none"><li>a) Develop an effective way of distributing information and brochures;</li><li>b) Add the Department's web site address and the Bismarck branch office phone number to brochures;</li><li>c) Update information on the Department's web site and information in the brochure regarding County and Tribal Veterans' Service Officers' hours of operation; and</li><li>d) Contact Job Service North Dakota regarding the accessibility to veterans service information on the Job Service web site.</li></ul>

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## **Appendix A**

### **List of Recommendations**

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- Recommendation 3-1** We recommend the Department of Veterans' Affairs take the necessary action to ensure proper appropriation authority is obtained for accepting and expending moneys the Department receives from the Veterans' Postwar Trust Fund or take the necessary action to modify North Dakota Century Code related to the Veterans' Postwar Trust Fund.
- Recommendation 3-2** We recommend the Department of Veterans' Affairs review and make the necessary changes to the Veterans' Aid Loan Program Policy Manual and application form. At a minimum, the Department should review:
- a) How information related to residency and the applicant's income can be verified;
  - b) What guidelines to establish for obtaining and analyzing a credit report for applicants;
  - c) What action is to be taken when loan applicants have been approved for a grant; and
  - d) What the County and Tribal Veterans' Service Officers responsibilities are in the loan application and approval process.
- Recommendation 3-3** We recommend the Department of Veterans' Affairs establish management controls to ensure compliance with criteria, policies, and procedures of the Veterans' Aid Loan Program. At a minimum, the Department should:
- a) Ensure the applicant meets residency requirements;
  - b) Ensure the applicant has the financial ability to repay the loan; and
  - c) Obtain and review information regarding the applicant's credit history.
- Recommendation 3-4** We recommend the Department of Veterans' Affairs improve the technology used in the accounting of the Veterans' Aid Loan Program.
- Recommendation 3-5** We recommend the Department of Veterans' Affairs review the correspondence associated with the Veterans' Aid Loan Program and:
- a) Discuss with the County and Tribal Veterans' Service Officers the correspondence related to the loan program and identify correspondence which will no longer be provided unless specifically requested;
  - b) Discontinue sending receipt letters for payments, unless specifically requested; and
  - c) Ensure correspondence contains professional language.
- Recommendation 3-6** We recommend the Department of Veterans' Affairs make changes to the process of waiving one-half of the interest on loans when timely repayment is made by:
- a) Providing individuals who have made timely repayment the option to reduce their last payment(s) rather than having an interest refund check sent to them; and



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## Appendix A

### List of Recommendations

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- b) Establishing management controls to ensure interest is only refunded when timely repayment criteria is met.

#### Recommendation 3-7

We recommend the Department of Veterans' Affairs make improvements in the processes and procedures related to loan accounts turned over for collection by:

- a) Establishing a formal contract for collection work to be performed;
- b) Establishing monitoring controls to determine collection performance;
- c) Ensuring accurate information on accounts turned over is maintained; and
- d) Reviewing the contract on a periodic basis and contacting other providers to determine the reasonableness of the amounts being charged.

#### Recommendation 3-8

We recommend the Department of Veterans' Affairs establish management controls for the monitoring of loans. At a minimum, the Department should:

- a) Establish criteria related to timely payments and/or delinquent accounts;
- b) Ensure consistent action is taken when timely payments are not made and/or accounts are delinquent; and
- c) Ensure all collection efforts and actions taken are documented.

#### Recommendation 3-9

We recommend the Department of Veterans' Affairs conduct a formal review of expenditures from the Veterans' Aid Fund including a time study of employees' duties and determine whether the administrative expenses paid by the Veterans' Aid Fund are reasonable. This review should occur after other recommendations to enhance the efficiency and effectiveness of the loan program have been implemented.

#### Recommendation 3-10

We recommend the Department of Veterans' Affairs discontinue the process of having counties in the western part of the state submit grant applications to the Bismarck branch office.

#### Recommendation 3-11

We recommend the Department of Veterans' Affairs review and make the necessary changes to the Emergency Hardship Assistance Grant Program Policy Manual and application form. At a minimum, the Department should review:

- a) How information related to residency, spouse or widow status, monthly income, and cash assets can be verified;
- b) What action is to be taken, if any, when applicants have received an unreasonable number of grants or appear to use the grants for non-emergency purposes;
- c) What action is to be taken when grant applicants have been approved for a loan;
- d) When requests for immediate grant approval are acceptable and the documentation required for this; and

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## Appendix A

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- e) What the County and Tribal Veterans' Service Officers responsibilities are in the grant application and approval process.

#### **Recommendation 3-12**

We recommend the Department of Veterans' Affairs establish management controls to ensure compliance with criteria, policies, and procedures of the Emergency Hardship Assistance Grant Program. At a minimum, the Department should:

- a) Ensure grant funds are used for qualified purposes;
- b) Obtain copies of tax forms or pay stubs of applicants;
- c) Ensure cash assets of applicants are \$2,000 or less;
- d) Ensure compliance with the grant category replacement time periods; and
- e) Ensure grant requests are disapproved in accordance with the criteria of the grant program.

#### **Recommendation 3-13**

We recommend the Department of Veterans' Affairs review the obligated and outstanding grant amount, establish a policy for computing this amount, and take appropriate action to have the Access application generate such information in accordance with policy requirements.

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## Program Information

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### Emergency Hardship Assistance Grant Program

The Department of Veterans' Affairs administers the Emergency Hardship Assistance Grant Program which provides financial assistance to veterans and their spouses or their unmarried widows/widowers who have a need of dental work, eye glasses, hearing aids, transportation for medical treatment, or other medical needs. Typically, a County or Tribal Veterans' Service Officer assists applicants in completing the application for a grant and the Department determines whether the application will be approved or disapproved. The Department's decision can be appealed to the Administrative Committee on Veterans' Affairs.

The information provided by the applicant is, for the most part, self-declared with the Department performing very little, if any, verification as to the reasonableness or accuracy of the information. To qualify for a grant, the applicant must meet the following criteria:

- Veteran Status: Prior to August 1, 2003, a veteran was defined as an individual who served on continuous federalized active military duty for 24 months or the full period which the person was called or ordered to active military duty, whichever was shorter, and who was discharged or released under other than dishonorable conditions. After August 1, 2003, a veteran was defined as an individual who served in the armed forces of the United States on federal active duty for reasons other than training and who has been discharged under other than dishonorable conditions.
- Residency: The residency criteria uses the definition of a resident identified in North Dakota Century Code Section 15-10-18.2. Residency requirements are met if the veteran:
  - a) Was born in and lived in this state until entrance into the armed forces of the United States;
  - b) Was born in, but was temporarily living outside this state, not having abandoned residence therein prior to entrance into the armed forces of the United States; or
  - c) Was born elsewhere but had resided within this state for at least six months prior to entrance into military service and had prior to or during such six-month period:
    - 1. Registered for voting or voted in this state;
    - 2. Being an unemancipated minor during such period of residence, had lived with a parent or guardian who had acquired a residence; or
    - 3. If not registered for voting in this state, not registered for voting in another state.

In addition, the Department's residency criteria also identifies that if a veteran entered the service from another state, the veteran must be a resident of North Dakota for at least one year prior to the date of application.

- Income: An applicant's monthly income, less medical expenses, must be below a certain amount based on the number of dependents claimed by the applicant. The monthly maximum amount is \$1,000 for no dependents with an additional \$100 for each of the first two dependents claimed and an additional \$200 for

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each dependent thereafter. Income information is to be verified by the Department if an individual is working or has worked within the last 12 months.

- Cash Assets: An applicant's cash assets must be \$2,000 or less.

There are five categories of grants which an applicant can apply for and grants are provided one time per category per calendar year with a maximum of \$1,000 per calendar year. The five categories and maximum amounts for each category are below:

- Optical: \$250
- Transportation: \$250
- Dental: \$500
- Hearing: \$750
- Special: \$1,000

In addition to the above maximum amounts, there are also limits on when an additional grant can be received by an individual. Three of the five grant categories have a replacement time interval, meaning an individual who has received a grant in a certain category is not eligible to receive a grant in the same category for a specified time. The replacement time intervals are:

- Dental: 5 years for denture replacement
- Hearing: 4 years for hearing aid replacement
- Optical: 2 years for eye glasses replacement

The Emergency Hardship Assistance Grant Program is not to be used for maintenance procedures such as routine teeth cleaning, annual check ups, or tint or scratch coating on eye glasses, unless medically required. Once services are provided to an individual who has been approved for a grant, the provider is to submit the bill to the Department who will then issue a check from the State Treasurer to the provider.

Funding for the Emergency Hardship Assistance Grant Program is provided through the interest income of the Veterans' Postwar Trust Fund. This fund is a permanent trust fund and all income received from investments is to be used only for programs of benefit and service to veterans or their dependents. All income is appropriated to the Administrative Committee on Veterans' on a continuing basis. The Committee periodically obligates a certain amount of interest income to the Department for grants to individuals.

In the 2001-2003 biennium, approximately \$157,000 of Veterans' Postwar Trust Fund interest income was used by the Department for grants to individuals. In the same biennium, the Department approved 510 grants to individuals and disapproved 84 grant requests.

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### Veterans' Aid Loan Program

The Department of Veterans' Affairs administers the Veterans' Aid Loan Program which provides financial assistance to veterans or their unmarried widows/widowers. Typically, a County or Tribal Veterans' Service Officer assists applicants in completing the application for a loan and the Department determines whether the application will be approved or disapproved. The Department's decision can be appealed to the Administrative Committee on Veterans' Affairs.

The information provided by the applicant is, for the most part, self-declared with the Department performing very little, if any, verification as to the reasonableness or accuracy of the information. To qualify for a loan, the applicant must meet the following criteria:

- Veteran Status: Prior to August 1, 2003, a veteran was defined as an individual who served on continuous federalized active military duty for 24 months or the full period which the person was called or ordered to active military duty, whichever was shorter, and who was discharged or released from under other than dishonorable conditions. After August 1, 2003, a veteran was defined as an individual who served in the armed forces of the United States on federal active duty for reasons other than training and who has been discharged under other than dishonorable conditions.
- Residency: The applicant must be a North Dakota resident that has lived in the state for at least 12 months prior to the date of application.
- Repayment: The applicant must have the financial ability to make repayment on the loan.

Through December 2003, the purpose of the Veterans' Aid Loan Program was for temporary unexpected financial emergencies such as a furnace breaking down, a vehicle breaking down, or unexpected medical needs. The loan program was not to be used to pay past due bills or to consolidate bills. However, in January 2004, the Administrative Committee on Veterans' Affairs' Subcommittee on the Department of Veterans' Affairs recommended the emergency language be removed.

The maximum amount of a loan is \$5,000 with 8.0% interest calculated monthly (North Dakota Century Code establishes a maximum interest rate of 10%). The number of months for repaying the loan can range from 6 to 48 months. If timely payments have been made and the loan is repaid on or before the due date, one-half of the interest paid will be waived.

The Department has the authority to take legal action to collect delinquent loans. The Department uses an attorney for collection and legal action can be taken on loans after they become six months delinquent.

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Funding for the Veterans' Aid Loan Program is provided through the Veterans' Aid Fund. This fund is a permanent revolving fund used for making loans to veterans or their unmarried widows/widowers, collecting loans, and paying administrative expenses related to the making and collection of loans. The Department has continuing appropriation for the moneys of the Veterans' Aid Fund.

In the 2001-2003 biennium, approximately \$462,000 of Veterans' Aid Fund moneys were used by the Department for loans to individuals. In the same biennium, the Department approved 143 loans to individuals and disapproved 64 loan requests.

## North Dakota Century Code Changes

This performance audit identifies a number of recommendations related to North Dakota Century Code (NDCC) sections pertaining to the Administrative Committee on Veterans' Affairs and the Department of Veterans' Affairs. The table below provides a list of those NDCC sections in which a recommendation is made that the Committee or the Department either complies with the requirements in NDCC or takes the appropriate action to modify NDCC. The table identifies NDCC sections, a brief description of the recommendation, and the pages in the report where additional information can be seen regarding the recommendation.

NDCC Section	Description of Recommendation	Pages in Report
37-18.1-01	This section states the Administrative Committee on Veterans' Affairs is to be a 15 member board with representation from each of the 5 major veteran organizations. Each year, each of the five veteran organizations is to submit a list containing the names of two individuals who qualify as a veteran to the Governor for appointment or reappointment. We determined the Committee is too large and the three members from each veteran organization is not representative of the membership of the veteran organizations.	9-10
37-14-18 37-18-04	These sections identify responsibilities of the Commissioner of the Department related to the County Veterans' Service Officers (CVSOs). The Commissioner is to assist, supervise, advise, and direct the work of the CVSOs and we determined that the Commissioner is not fulfilling these responsibilities. However, we also noted concerns with a state entity having such responsibilities related to county employees and the number of county employees that are to be supervised by the Department.	13-15
37-14-18	This section states the CVSO appointment by the Board of County Commissioners is to be made with the prior advice of the Commissioner of the Department. We determined prior advice was not being provided by the Department.	17
37-18-04	This section identifies a duty of the Commissioner is to assist county service officers in the formation of county service to veterans' committees and to outline, assist, and direct the activities of such committees. We were unable to identify the veterans' committees this section was attempting to identify.	18
37-14-11 37-18-04	These sections identify information related to the Department's appropriation authority. We determined the Department is receiving and expending moneys that it does not have proper appropriation authority and the Department should obtain such authority or modify NDCC.	22-23